RELATIONSHIP BETWEEN FOREIGN DIRECT INVESTMENTS AND GROSS DOMESTIC PRODUCTION OF INDIA (FROM 2005-2013)

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Relationship between Foreign Direct Investments and Gross Domestic Production of India (From 2005-2013)

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Abstract – Foreign Direct Investment (FDI) is viewed as the backbone of economic development particularly for the developing and immature countries. With the beginning of globalization, many developing countries, for the most part those in Asia, are seeing a tremendous stream of FDIs amid the previous two decades. Foreign Direct investment assumes a vital job in the development of the country. At times domestically accessible capital is deficient with the end goal of by and large development of the nation. India can draw in a lot bigger foreign investments than it has done in the past Foreign Direct Investment (FDI) is viewed as imperative injections motivator to the developing countries to enhance and quicken economic development. Gross domestic product has been characterized as "a total proportion of production equivalent to the whole of the gross values included of all resident, institutional units occupied with production." Since the greater part of the developing countries are encountering an absence of financial resources, dimension of technology and skills. The primary aim of this paper is to define and analyze the relationship and effects of FDI on gross domestic production of country through which we came to a conclusion that FDI have a positive impact on GDP as economic growth, the size of such impact may vary across countries depending on the level of human capital, domestic investment, infrastructure, macroeconomic stability, and trade policies

Keywords: Foreign Direct Investment, Gross Domestic Production, Economic, Growth, Developing, Flow, Growth Rate.

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I. INTRODUCTION

A standout amongst the most striking developments amid the most recent two decades is the staggering growth of FDI in the worldwide economic scene. This exceptional growth of worldwide FDI in 1990 around the globe make FDI an imperative and indispensable segment of development methodology in both developed and developing countries and approaches are planned so as to animate inward streams. Actually, FDI gives a success – win circumstance to the host and the nations of origin. The two countries are directly keen on welcoming FDI, in light of the fact that they advantage a ton from such kind of investment. The 'home' countries need to take the benefit of the huge markets Opened by mechanical growth. Then again the countries need to gain technological and managerial skills and supplement domestic Savings and foreign trade. Besides, the scarcity of a wide range of assets viz. budgetary, capital, business, innovative know-how, skills and practices, access to business sectors abroad-in their economic development, developing countries acknowledged FDI as a sole obvious panacea for every one of their shortcomings. Further, the combination of worldwide money related markets clears approaches to this touchy growth of FDI around the world.

1.1 Foreign Direct Investment in India

Foreign direct investment (FDI) in India has assumed an imperative job in the development of the Indian economy amid the subsidence. FDI in India has – from numerous points of view – empowered India to accomplish a specific level of financial stability, growth and development. This cash has enabled India to concentrate on the zones that may have required economic consideration and address different issues that keep on testing the nation. The components that pulled in investment in India are steady economic arrangements, accessibility of modest and quality human resources, and chances of new unexplored markets. For the most part FDI are flowing in service sector and manufacturing sector recorded low investments. The investments in service sector will improve the advantage of flow of assets to the nation of origin. By and by India is contributing about 17% of world complete populace however the offer of GDP to world GDP is 2%. India has been positioned at the second place in worldwide foreign direct investments in 2010 and will keep on staying among the main five alluring goals for universal investors amid 2010-12 period, as per United Nations Conference on Trade and Development (UNCTAD) in an investigate world investment prospects titled, 'World Investment Prospects Survey 2009-2012'.

► Need for FDI in India

As India is a developing nation, capital has been one of the startle resources that are typically required for economic development. Capital is restricted and there are numerous issues, for example, Health, poverty, employment, education, research and development, technology obsolesce, global challenge. The flow of FDI in India from over the world will help in obtaining the assets at less expensive cost, better technology, employment age, and updated technology exchange, scope for more exchange, linkages and overflows to domestic firms. The accompanying contentions are progressed for foreign capital

- Sustaining a High Level of Investment:
- Technological Gap:
- Exploitation of Natural Resources
- Understanding the Initial Risk
- Development of Basic Economic Infrastructure
- Improvement in the Balance of Payments Position
- Foreign Firm's Helps In Increasing the Competition

1.2 GDP (Gross Domestic Product)

Gross Domestic Product speaks to the profitable capacity of the economy it reflects both the span of the domestic market and the purchasing power of the nationals. In the event that the connection among FDI and GDP is positive, it suggests that FDI flows in to an economy with an adequately vast host nation market to suit the expansion in local supply. The said relationship isn't constantly positive, yet on the off chance that it is, the host nation is subject to get a higher growth rate and end up aggressive in the worldwide market.

Gross domestic product has been characterized as "an aggregate measure of production equivalent to the entirety of the gross values included of all resident, institutional units occupied with production." An IMF distribution expresses that "Gross domestic product estimates the fiscal value of definite merchandise and enterprises that is, those that are purchased by the last client - created in a nation in a given time of time (say a quarter or a year). Complete GDP can likewise be separated into the virtual commitment of every industry of the economy

► Current Challenges

India is unquestionably a worthwhile place for FDI, however there are positively a few challenges and zones for development still present. Until, these zones are sharpened to flawlessness, India won't turn into the main place for FDI. India is concentrating on augmenting political and social stability alongside a regulatory situation. Regardless of the conspicuous favorable circumstances of FDIs, there are many challenges confronting larger FDIs in India, for example,

≈ Resource challenge

≈ Absence of decision making authority with the state governments

≈ Government Challenge:

≈ Limited scale of export processing zones

≈ Absence of sufficient foundation

≈ Stringent labor laws:

≈ Equity challenge:

≈ Corruption:

≈ Political Challenge

1.3 Impact on Indian Economy

FDI have helped India to accomplish a financial stability and economic growth with the assistance of investments in various sectors. FDI has helped the economic existence of India and then again there are faultfinders who have rebuked the administration for expelling the domestic inflows. After progression of Trade policies in India, there has been a positive GDP growth rate in Indian economy.

Figure 1 Impact of FDI and GDP

Foreign direct investments helps in developing the economy by producing employment to the jobless, Generating incomes as expense and salaries, Financial stability to the administration, development of foundation, backward and forward linkages to the domestic firms for the necessities of crude materials, devices, business framework, and go about as help for financial framework.

Forward and back ward linkages are developed to help the foreign firm with supply of raw and different prerequisites. It helps in age of employment and additionally helps poverty eradication. There are numerous organizations or people who might win their exuberant hood through the foreign investments. There are lawful and financial experts who additionally manage in the beginning time of foundation of firm. It is the world biggest popular government and crown at a noteworthy rate of more than 6 percent, on a normal for each annum in the most recent decades.

The quantity of proposition endorsed by the foreign investment board from the time of February 2003 to December 2009 were 3511 recommendations and the proposed inflows of foreign direct investment is 194708.83 (Rs. in crores). Amid 2009 alone FIPB affirmed 300 recommendations with FDI inflow of Rs.404111 crores. In the thirteenth round second quarter of financial year 2011 of the expert forecasters review led by the RBI, anticipates that the genuine GDP growth should be insignificantly higher at 8.5 percent in financial year 2011 from the last overview.

2. REVIEW OF LITERATURE

Türkcan et al. (2008) analyzed the endogenous connection between foreign direct investment and economic development for 23 OECD countries and 1975 – 2004 timeframe. For this reason a synchronous condition framework was built up and an econometric estimation system was connected. The assessment outcomes propose that FDI decidedly influences economic development rate and furthermore economic development rate emphatically influences FDI inflows. The paper investigates that send out development rate is measurably huge determinant of FDI and economic development. The outcomes additionally demonstrate that economic development invigorates development rate of FDI inflows more than that the development rate of FDI animates economic development.

Kotrajaras (2010) analyzes the impact of FDI on the economic growth of 15 East Asian countries which are ordered by their economic conditions, for example dimensions of human capital, investment on framework, and trade receptiveness for the diagnostic reason. The board co-integration examination with endogenous growth model is utilized to watch the impact. The investigation depends on time arrangement information from 1990-2009. The outcomes demonstrate that FDI does not really upgrade economic growth. FDI positively affected the economic growth just in the countries that have the proper economic conditions. East Asian countries including Thailand need to contribute more on key framework and human capital, and increment their level of trade receptiveness so as to acquire from FDI.

Abbas *et al.* (2011) explore the effect of FDI on GDP of SAARC countries for a time of 2001-2010. They use change in GDP as needy variable while FDI and inflation are as autonomous factors. The outcome uncovers that the general model is huge and they locate a positive and noteworthy relationship among GDP and FDI while the relationship among GDP and inflation is insignificant.

Jaya Prakash Pradhan (2011) - This article presentation gives an outline of various issues and points broke down in the present TNCR unique issue. Themes encompassing the ascent of India as a host to FDI and a home for rising Indian TNCs are talked about. The uncommon issue make a huge commitment to the present discussion on internationalization of rising economies like India.

Abdullahi *et al*. (2012) looks at the job of FDI on economic growth, making a correlation between chose countries of Africa and Asia, using information for 30 countries, 15 each from Africa and Asia for the time of 1990 to 2009. Utilizing Hausman test, experimental outcomes demonstrated that FDI has positive relationship with GDP growth for both Africa and Asia and it additionally revealed that single direction causality for Africa yet no such proof for Asia. The creators recommended for more receptiveness of the economies, greater investment in infrastructure and progressively political duty in the battle against defilement.

3. OBJECTIVES OF THE STUDY

1. To conceptualize the terms of foreign direct investment and Gross Domestic Production of India.

2. To define the need and current challenges of Foreign Direct investment of India.

3. To Investigate and experiment the impact of foreign direct investment (FDI) on India's Gross Domestic Production (GDP).

4. To assess the coefficient correlation on the dependent and independent variables of the study i.e., GDP and FDI.

5. To experiment the relationship of GDP and FDI during the period of 2005-2013.

4. RESEARCH METHODOLOY

4.1 Research Methodology

It is an efficient examination concerning existing and new learning. It is useful to make or approve actualities, solve issues, bolster hypotheses or grow new theories. This is a lot of orderly procedure utilized in research. This essentially implies a manual for research and how it is led. It describes and analysis strategies, tosses all the more light on their restrictions and resources, clear up their pre-suppositions and outcomes, relating their possibilities to a twilight zone at the frontiers of learning.

4.2 Data Collection

The researcher has led this research to watch the relationship among FDI and GDP in India and its effect. For this, the information have been gathered from FDI and GDP of India of most recent ten years for example from year 2005 to 2013.

4.3 Variables of the study

We have chosen two unique variables for example FDI as independent variable and GDP as the dependent variable and endeavored to make a simple correlation and end.

4.4 Hypothesis

1. There is a significant relationship between FDI and GDP of India

4.5 Statistical Tools Used In This Study

Statistical techniques engaged with completing an investigation planning, designing, collecting data, analyzing, drawing important translation and announcing of the research, we utilized two statistical tools for two unique purposes in this examination

- To look at the continuous development in FDI and GDP by utilizing Index Number
- To set up and express the relationship among FDI and GDP by utilizing Correlation Coefficient.

5. DATA ANALYSIS AND INTERPRETATION

We analyzed the data collected through five years. These have been practiced by utilization of rate of estimating GDP. Annual inflow of foreign investment in India is displayed in Table. It demonstrates the comparative position of FDI and GDP in India. In 2005-13 both these remained at US$ million separately.

Table 1 Assessment of FDI and GDP in India during (2005 to 2013)

Year	FDI (in US$ Billion)	Growth rate of FDI in (%)	GDP (in US$ Billion)	Growth rate of GDP
2005	4.356	-	834.2	-
2006	14.212	226.26	949.1	13.77
2007	15.921	12.02	1238.7	30.51
2008	33.027	107.44	1224.1	-1.18
2009	26.818	-18.8	1365.3	11.53
2010	21.007	-21.67	1708.5	25.13
2011	28.875	37.45	1835.81	7.45
2012	17.554	-39.21	1831.78	-0.22
2013	26.535	51.16	1861.8	1.63

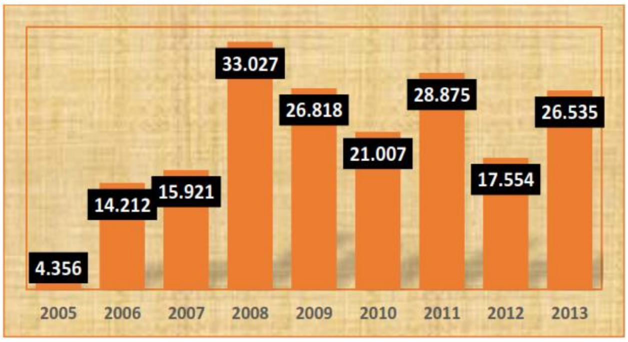

Figure 2 Assessment of FDI and GDP in India during (2005 to 2013)

The positive impact of FDI is probably going to be higher as value expansion under FDI increments. In 2008-09 the FDI inflow and thusly the growth of the economy saw a downfall because of the global retreat anyway the Indian economy saw a quick recuperation in 2009-10. The global economic slowdown had influenced the Indian economy and GDP growth directed to 6.8% in 2008-09 contrasted with a normal of 9.5% in the first three years. The impact of global slowdown was progressively exceptional on industry, especially the manufacturing sector. The financial and money related strategy mediations, be that as it may, gave the improvement to the economy, prompting a recuperation in the GDP growth to 8.0% in 2009-10 and 8.9% in the main portion of 2010-11 depict the relationship among FDI and GDP ascertain Correlation Coefficient by considering FDI as independent variable and GDP as dependent variable and the outcome is as follows:

Table 2 Correlation Coefficient

Correlation Coefficient	FDI	GDP
FDI	-	-
GDP	0.64253	-

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Correlation coefficient of FDI and GDP is 0.642 which is positive and closer to 1(one). Thus there is a significant relationship among FDI and GDP of India and it must be said that FDI impacts the Gross Domestic Production of India. When all is said in done terms, FDI inflow positively affects the growth of GDP in India. FDI inflow expanded amid 1999-00 to 2013 in spite of some genuine vacillations. Gross domestic product has expanded by around multiple times amid a similar period. An econometric model is being advanced to quantitatively demonstrate the relationship between GDP growth and FDI.

6. CONCLUSION

FDI can be an imperative factor for development, be that as it may, it's anything but an end in itself. The correct system is make a good situation all through the nation for fair FDI inflow and all the while create sound domestic full scale economic and basic policies. FDI in India has a significant job in the economic growth and development of India. FDI in India to different sectors can achieve supported economic growth and development through production of employments, extension of existing manufacturing enterprises. According to examination of information gathered the researcher finds the correlation coefficient of variables is 0.642 which is positive and the present consequence of correlation coefficient can be translate as a good pointer. Changes happened in FDI influence the GDP of nation which implies that expansion in FDI demonstrates the positive impact on the GDP of India. Along these lines, Foreign Direct Investment is healthier for Indian economy in term of Gross Domestic Product. In this paper through examinations of 10 years we reached a decision that FDI makes a positive impact on the Gross Domestic production of the nation.

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